Glossary

This glossary defines economic and budgetary terms as they relate to the Congressional Budget Office's annual *Budget and Economic Outlook* and for the general information of readers. Some entries sacrifice precision for the sake of brevity and clarity to the lay reader. Where appropriate, entries note the sources of data as follows:

(BEA) refers to the Bureau of Economic Analysis in the Department of Commerce;

(BLS) refers to the Bureau of Labor Statistics in the Department of Labor;

(CBO) refers to the Congressional Budget Office;

(FRB) refers to the Federal Reserve Board; and

(NBER) refers to the National Bureau of Economic Research (a private entity).

accrual accounting: A system of accounting in which revenues are recorded when earned and outlays are recorded when goods are received or services performed, even though the actual receipt of revenues and payment for goods or services may occur, in whole or in part, at a different time. Compare with **cash accounting.**

adjusted gross income (AGI): All income subject to taxation under the individual income tax after subtracting "above-the-line" deductions, such as alimony payments and certain contributions for individual retirement accounts. Personal exemptions and the standard or itemized deductions are subtracted from AGI to determine taxable income.

advance appropriation: Budget authority provided in an appropriation act that is first available for obligation in a fiscal year after the year for which the appropriation was enacted. The amount of the advance appropriation is included in the budget totals for the fiscal year in which it will become available. See **appropriation act, budget authority, fiscal year,** and **obligation;** compare with **forward funding** and **obligation delay.**

aggregate demand: Total purchases of a country's output of goods and services by consumers, businesses, government, and foreigners during a given period. (BEA) Compare with **domestic demand.**

AGI: See **adjusted gross income.**

alternative minimum tax (AMT): A tax intended to limit the extent to which higher-income taxpayers can reduce their tax liability (the amount they owe) through the use of preferences in the tax code. Taxpayers subject to the AMT are required to recalculate their tax liability on the basis of a more limited set of exemptions, deductions, and tax credits than would normally apply. The amount by which a taxpayer's AMT calculation exceeds his or her regular tax calculation is that taxpayer's AMT liability.

appropriation act: Legislation under the jurisdiction of the House and Senate Committees on Appropriations that provides budget authority for federal programs or agencies. By law, such an act has a particular style and title—for example, "An act making appropriations for the Department of Defense for the year ending September 30, 2004." Generally, 13 regular appropriation acts are considered annually to fund the operations of the federal government; the Congress may also consider supplemental or continuing appropriation acts, but each follows the statutory style and title. See **budget authority.**

authorization act: Legislation under the jurisdiction of a committee other than the House and Senate Committees on Appropriations that establishes or continues the operation of a federal program or agency, either indefinitely or for a specified period of time. An authorization act may suggest a level of budget authority needed to fund the program or agency, which is then provided in a future appropriation act. However, for some programs, the authorization itself may provide the budget authority. See **budget authority.**

Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177): Referred to in CBO's reports as the Deficit Control Act, it was originally known as Gramm-Rudman-Hollings. Among other changes to the budget process, the law established specific deficit targets and a sequestration procedure to reduce spending if those targets were exceeded. The Deficit Control Act has been amended and extended several times—most significantly by the Budget Enforcement Act of 1990 (BEA). The BEA established one type of control, the pay-as-you-go procedure, for legislation affecting direct spending and revenues and another type of control, annual spending limits, for discretionary spending. The sequestration procedure—originally applicable to overall deficit targets—was restructured to enforce the discretionary spending limits and pay-as-you-go process separately. However, on September 30, 2002, the discretionary spending caps and the sequestration procedure to enforce those caps expired, and the Office of Management and Budget and CBO were no longer required to record the five-year budgetary effects of legislation affecting direct spending or revenues. Although sequestration under the pay-as-you-go procedure would have continued through 2006 on the basis of laws enacted before September 30, 2002, Public Law 107-312 eliminated that possibility by reducing to zero all pay-as-you-go balances. See **direct spending, discretionary spending, discretionary spending limits (or caps), pay-as-you-go, revenues,** and **sequestration.**

baseline: A benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending. For purposes of the Deficit Control Act, the baseline is the projection of current-year levels of new budget authority, outlays, revenues, and the surplus or deficit into the budget year and out-years based on current laws and policies, calculated following the rules set forth in section 257 of that act. See **fiscal year.**

basis point: One-hundredth of a percentage point. (For example, the difference between interest rates of 5.5 percent and 5.0 percent is 50 basis points.)

***Blue Chip* consensus forecast:** The average of about 50 private-sector economic forecasts compiled and published monthly by Aspen Publishers, Inc.

book depreciation: See **depreciation.**

book profits: Profits calculated using book (or tax) depreciation and standard accounting conventions for inventories. Different from economic profits, book profits are referred to as "profits before tax" in the national income and product accounts. See **depreciation, economic profits,** and **national income and product accounts.**

budget authority: Authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds. Budget authority may be provided in an appropriation act or authorization act and may take the form of borrowing authority, contract authority, or authority to obligate and expend offsetting collections or receipts. Offsetting collections and receipts are classified as negative budget authority. See **appropriation act, authorization act, contract authority, offsetting collections, offsetting receipts,** and **outlays.**

Budget Enforcement Act of 1990 (BEA): See **Balanced Budget and Emergency Deficit Control Act of 1985.**

budget function: One of 20 broad categories into which budgetary resources are grouped so that all budget authority and outlays can be presented according to the national interests being addressed. There are 17 broad budget functions, including national defense, international affairs, energy, agriculture, health, income security, and general government. Three other functions—net interest, allowances, and undistributed offsetting receipts—are included to complete the budget. See **budget authority, net interest, offsetting receipts,** and **outlays.**

budget resolution: A concurrent resolution, adopted by both Houses of Congress, that sets forth a Congressional budget plan for the budget year and at least four out-years. The plan consists of spending and revenue targets with which subsequent appropriation acts and authorization acts that affect revenues and direct spending are expected to comply. The targets established in the budget resolution are enforced in each House of Congress through procedural mechanisms set out in law and the rules of each House. See **appropriation act, authorization act, direct spending, fiscal year,** and **revenues.**

budget year: See **fiscal year.**

budgetary resources: All sources of authority provided to federal agencies that permit them to incur financial obligations, including new budget authority, unobligated balances, direct spending authority, and obligation limitations. See **budget authority, direct spending, obligation limitation,** and **unobligated balances.**

business cycle: Fluctuations in overall business activity accompanied by swings in the unemployment rate, interest rates, and corporate profits. Over a business cycle, real activity rises to a peak (its highest level during the cycle), then falls until it reaches a trough (its lowest level following the peak), whereupon it starts to rise again, defining a new cycle. Business cycles are irregular, varying in frequency, magnitude, and duration. (NBER) See **real.**

business fixed investment: Spending by businesses on structures, equipment, and software. Such investment is labeled "fixed" to distinguish it from investment in inventories.

capacity utilization rate: The seasonally adjusted output of the nation's factories, mines, and electric and gas utilities expressed as a percentage of their capacity to produce output. The capacity of a facility is the greatest output it can maintain with a normal work pattern. (FRB)

capital: *Physical capital* is land and the stock of products set aside to support future production and consumption. In the national income and product accounts, *private capital* consists of business inventories, producers' durable equipment, and residential and nonresidential structures. *Financial capital* is funds raised by governments, individuals, or businesses by incurring liabilities such as bonds, mortgages, or stock certificates. *Human capital* is the education, training, work experience, and other attributes that enhance the ability of the labor force to produce goods and services. *Bank capital* is the sum advanced and put at risk by the owners of a bank; it represents the first "cushion" in the event of loss, thereby decreasing the willingness of the owners to take risks in lending. See **consumption** and **national income and product accounts.**

capital input: A measure of the flow of services available for production from the stock of capital goods. Growth in the capital input differs from growth in the capital stock because different types of capital goods (such as equipment, structures, inventories, or land) contribute differently to production.

cash accounting: A system of accounting in which revenues are recorded when actually received and outlays are recorded when payment is made. Compare with **accrual accounting.**

central bank: A government-established agency responsible for conducting monetary policy and overseeing credit conditions. The Federal Reserve System fulfills those functions in the United States. See **Federal Reserve System** and **monetary policy.**

civilian unemployment rate: Unemployment as a percentage of the civilian labor force—that is, the labor force excluding armed forces personnel. (BLS) See **labor force** and **unemployment rate.**

compensation: All income due to employees for their work during a given period. In addition to wages, salaries, bonuses, and stock options, compensation includes fringe benefits and the employer's share of contributions to social insurance programs, such as Social Security. (BEA)

consumer confidence: An index of consumer optimism based on surveys of consumers' attitudes about current and future economic conditions. One such index—the Index of Consumer Sentiment—is constructed by the University of Michigan Survey Research Center. The Conference Board constructs a similar index—the Consumer Confidence Index.

consumer price index (CPI): An index of the cost of living commonly used to measure inflation. The Bureau of Labor Statistics publishes the CPI-U, an index of consumer prices based on the typical market basket of goods and services consumed by all urban consumers during a base period, and the CPI-W, an index of consumer prices based on the typical market basket of goods and services consumed by urban wage earners and clerical workers during a base period. (BLS) See **inflation.**

consumer sentiment index: See **consumer confidence.**

consumption: In principle, the value of goods and services purchased and used up during a given period by households and governments. In practice, the Bureau of Economic Analysis counts purchases of many long-lasting goods (such as cars and clothes) as consumption even though the goods are not used up. Consumption by households alone is also called *consumer spending.* See **national income and product accounts.**

contract authority: Authority in law to enter into contracts or incur other obligations in advance of, or in excess of, funds available for that purpose. Although it is a form of budget authority, contract authority does not provide the funds to make payments. Those funds must be provided later, usually in a subsequent appropriation act (called a liquidating appropriation). Contract authority differs from a federal agency's inherent authority to enter into contracts, which may be exercised only within the limits of available appropriations. See **appropriation act, budget authority,** and **obligation.**

CPI: See **consumer price index.**

credit reform: A system of budgeting for federal credit activities that focuses on the cost of subsidies conveyed in federal credit assistance. The system was established by the Federal Credit Reform Act of 1990. See **credit subsidy.**

credit subsidy: The estimated long-term cost to the federal government of a direct loan or loan guarantee. That cost is calculated on the basis of net present value, excluding federal administrative costs and any incidental effects on revenues or outlays. For direct loans, the subsidy cost is the net present value of loan disbursements minus repayments of interest and principal, adjusted for estimated defaults, prepayments, fees, penalties, and other recoveries. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries. See **outlays, present value,** and **revenues.**

current-account balance: The net revenues that arise from a country's international sales and purchases of goods and services plus net international transfers (public or private gifts or donations) and net factor income (primarily capital income from foreign property owned by residents of that country minus capital income from domestic property owned by nonresidents). The current-account balance differs from net exports in that it includes international transfers and net factor income. (BEA) See **net exports.**

current dollar: A measure of spending or revenues in a given year that has not been adjusted for differences in prices (such as inflation) between that year and a base year. See **nominal;** compare with **real.**

current year: See **fiscal year.**

cyclical surplus or deficit: The part of the federal budget surplus or deficit that results from cyclical factors rather than from underlying fiscal policy. This cyclical component reflects the way in which the surplus or deficit automatically increases or decreases during economic expansions or recessions. (CBO) See **deficit, fiscal policy,** and **surplus;** compare with **standardized-budget surplus or deficit.**

debt: The total value of outstanding securities issued by the federal government is referred to as *federal debt* or *gross debt.* It has two components: *debt held by the public* (federal debt held by nonfederal investors, including the Federal Reserve System) and *debt held by government accounts* (federal debt held by federal government trust funds, deposit insurance funds, and other federal accounts). *Debt subject to limit* is federal debt that is subject to a statutory limit on its issuance. The current limit applies to almost all gross debt, except a small portion of the debt issued by the Department of the Treasury and the small amount of debt issued by other federal agencies (primarily the Tennessee Valley Authority and the Postal Service). *Unavailable debt* is debt that is not available for redemption, or the amount of debt that would remain outstanding even if surpluses were large enough to redeem it. Such debt includes securities that have not yet matured (and will be unavailable for repurchase) and nonmarketable securities, such as savings bonds.

debt service: Payment of scheduled interest obligations on outstanding debt. As used in CBO's *Budget and Economic Outlook,* debt service refers to a change in interest payments resulting from a change in estimates of the surplus or deficit.

deficit: The amount by which the federal government's total outlays exceed its total revenues in a given period, typically a fiscal year. See **outlays** and **revenues;** compare with **surplus.**

Deficit Control Act: See **Balanced Budget and Emergency Deficit Control Act of 1985.**

deflation: A drop in general price levels so broadly based that general indexes of prices, such as the consumer price index, register continuing declines. Deflation is usually caused by a collapse of aggregate demand. See **aggregate demand** and **consumer price index.**

deposit insurance: The guarantee by a federal agency that an individual depositor at a participating depository institution will receive the full amount of the deposit (up to $100,000) if the institution becomes insolvent.

depreciation: Decline in the value of a currency, financial asset, or capital good. When applied to a capital good, depreciation usually refers to loss of value because of obsolescence, wear, or destruction (as by fire or flood). *Book depreciation* (also known as tax depreciation) is the depreciation that the tax code allows businesses to deduct when they calculate their taxable profits. It is typically faster than *economic depreciation,* which represents the actual decline in the value of the asset. Both measures of depreciation appear as part of the national income and product accounts. See **book profits** and **national income and product accounts.**

devaluation: The act of a government to lower the fixed exchange rate of its currency. The government implements a devaluation by announcing that it will no longer maintain the existing rate by buying and selling its currency at that rate. See **exchange rate.**

direct spending: Synonymous with mandatory spending. Direct spending is budget authority provided and controlled by laws other than appropriation acts and the outlays that result from that budget authority. For the purposes of the Deficit Control Act, direct spending includes entitlement authority and the Food Stamp program. See **appropriation act, budget authority, entitlement,** and **outlays;** compare with **discretionary spending.**

discount rate: The interest rate that the Federal Reserve System charges on a loan it makes to a bank. Such loans, when allowed, enable a bank to meet its reserve requirements without reducing its loans.

discouraged workers: Jobless people who are available for work but who are not actively seeking it because they think they have poor prospects for finding a job. Discouraged workers are not counted as part of the labor force or as being unemployed. (BLS) See **labor force** and **unemployment rate.**

discretionary spending: Budget authority that is provided and controlled by appropriation acts and the outlays that result from that budget authority. See **appropriation act** and **outlays;** compare with **direct spending.**

discretionary spending limits (or caps): Statutory ceilings imposed on the amount of budget authority provided in appropriation acts in a fiscal year and on the outlays that are made in that fiscal year. The limits were first established in the Budget Enforcement Act of 1990 and enforced through sequestration. On September 30, 2002, all discretionary spending limits, and the sequestration process to enforce them, expired. See **Balanced Budget and Emergency Deficit Control Act of 1985, budget authority, discretionary spending, outlays,** and **sequestration.**

disposable personal income: *Personal income*—the income that individuals receive, including transfer payments—minus the personal taxes and fees that they pay to governments. (BEA) See **transfer payments.**

domestic demand: Total purchases of goods and services, regardless of origin, by U.S. consumers, businesses, and governments during a given period. Domestic demand equals gross domestic product minus net exports. (BEA) See **gross domestic product** and **net exports;** compare with **aggregate demand.**

ECI: See **employment cost index.**

Economic and Monetary Union (EMU): A currency union consisting of most of the members of the European Union, who in January 1999 aligned their monetary policies under the European Central Bank and adopted a common currency, the euro.

Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16): Referred to in CBO reports as EGTRRA, it was signed into law on June 7, 2001. The law significantly reduces tax liabilities (the amount of tax owed) over the 2001-2010 period by cutting individual income tax rates, increasing the child tax credit, repealing estate taxes, raising deductions for married couples, increasing tax benefits for pensions and individual retirement accounts, and creating additional tax benefits for education. The law phases in many of those changes over time, including some that are not fully effective until 2010. All of the law's provisions are now scheduled to expire on or before December 31, 2010.

economic profits: Profits of corporations, adjusted to remove the distortions in depreciation allowances caused by tax rules and to exclude the effect of inflation on the value of inventories. Economic profits are a better measure of profits from current production than are the book profits reported by corporations. Economic profits are referred to as "corporate profits with inventory valuation and capital consumption adjustments" in the national income and product accounts. (BEA) See **book profits, depreciation,** and **national income and product accounts.**

effective tax rate: The ratio of taxes paid to a given tax base. For individual income taxes, the effective tax rate is typically expressed as the ratio of taxes to adjusted gross income. For corporate income taxes, it is the ratio of taxes to book profits. For some purposes—such as calculating an overall tax rate on all income sources—an effective tax rate is computed on a base that includes the untaxed portion of Social Security benefits, interest on tax-exempt bonds, and similar items. It can also be computed on a base of personal income as measured by the national income and product accounts. The effective tax rate is a useful measure because the tax code's various exemptions, credits, deductions, and tax rates make actual ratios of taxes to income very different from statutory tax rates. See **adjusted gross income** and **book profits.**

EGTRRA: See **Economic Growth and Tax Relief Reconciliation Act of 2001.**

employment cost index (ECI): An index of the weighted-average cost of an hour of labor—comprising the cost to the employer of wage and salary payments, employee benefits, and contributions for social insurance programs. The ECI is structured so that it is not affected by changes in the mix of occupations or changes in employment by industry. (BLS)

entitlement: A legal obligation of the federal government to make payments to a person, group of persons, business, unit of government, or similar entity that is not controlled by the level of budget authority provided in an appropriation act. The Congress generally controls spending for entitlement programs by setting eligibility criteria and benefit or payment rules. The source of funding to liquidate the obligation may be provided in either the authorization act that created the entitlement or a subsequent appropriation act. The best-known entitlements are the major benefit programs, such as Social Security and Medicare. See **appropriation act, authorization act, budget authority,** and **direct spending.**

exchange rate: The number of units of a foreign currency that can be bought with one unit of the domestic currency, or vice versa.

excise tax: A tax levied on the purchase of a specific type of good or service, such as tobacco products or telephone services.

expansion: A phase of the business cycle extending from the date that gross domestic product exceeds its previous peak to the next peak. (NBER) See **business cycle, gross domestic product,** and **recovery;** compare with **recession.**

expenditure account: An account established within federal funds and trust funds to record appropriations, obligations, and outlays that is usually financed from the associated receipt account. See **federal funds, receipt account,** and **trust funds.**

fan chart: A graphic representation of CBO's baseline projections that includes not only a single line representing the outcome expected under the baseline's economic assumptions but also the various possible outcomes surrounding that line based on the reasonable expectations of error in the underlying assumptions.

federal funds: Part of the budgeting and accounting structure of the federal government. Federal funds are all funds that make up the federal budget except those classified by law as trust funds. Federal funds include several types of funds, one of which is the general fund. See **general fund;** compare with **trust funds.**

federal funds rate: The interest rate that financial institutions charge each other for overnight loans of their monetary reserves. A rise in the federal funds rate (compared with other short-term interest rates) suggests a tightening of monetary policy, whereas a fall suggests an easing. (FRB) See **monetary policy** and **short-term interest rate.**

Federal Open Market Committee: The group within the Federal Reserve System that determines the direction of monetary policy. The open market desk at the Federal Reserve Bank of New York implements that policy with open market operations (the purchase or sale of government securities), which influence short-term interest rates—especially the federal funds rate—and the growth of the money supply. The committee is composed of 12 members, including the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and a rotating group of four of the other 11 presidents of the regional Federal Reserve Banks. See **federal funds rate, Federal Reserve System, monetary policy, money supply,** and **short-term interest rate.**

Federal Reserve System: The central bank of the United States. The Federal Reserve is responsible for conducting the nation's monetary policy and overseeing credit conditions. See **central bank, monetary policy,** and **short-term interest rate.**

financing account: A nonbudgetary account associated with a credit program that holds balances, receives credit subsidy payments from the program account, and includes all cash flows resulting from obligations or commitments made under the credit program since October 1, 1991. The transactions reflected in the financing account are considered a means of financing. See **credit subsidy, means of financing,** and **program account;** compare with **liquidating account.**

fiscal policy: The government's choice of tax and spending programs, which influences the amount and maturity of government debt as well as the level, composition, and distribution of national output and income. Many summary indicators of fiscal policy exist. Some, such as the budget surplus or deficit, are narrowly budgetary. Others attempt to reflect aspects of how fiscal policy affects the economy. For example, a decrease in the *standardized-budget surplus* (or increase in the *standardized-budget deficit*) measures the short-term stimulus of demand that results from higher spending or lower taxes. The *fiscal gap* measures whether current fiscal policy implies a budget that is close enough to balance to be sustainable over the long term. The fiscal gap represents the amount by which taxes would have to be raised, or spending cut, to keep the ratio of debt to GDP from rising forever. Other important measures of fiscal policy include the ratios of total taxes and total spending to GDP. See **debt, deficit, gross domestic product, national income, standardized-budget surplus or deficit,** and **surplus.**

fiscal year: A yearly accounting period. The federal government's fiscal year begins October 1 and is designated by the calendar year in which it ends—for example, fiscal year 2005 begins October 1, 2004, and ends September 30, 2005. The *budget year* is the fiscal year for which the budget is being considered; in relation to a session of Congress, it is the fiscal year that starts on October 1 of the calendar year in which that session of Congress begins. An *out-year* is a fiscal year following the budget year. The *current year* is the fiscal year in progress.

foreign direct investment: Financial investment by which a person or an entity acquires a lasting interest in, and a degree of influence over, the management of a business enterprise in a foreign country. (BEA)

forward funding: The provision of budget authority that becomes available for obligation in the last quarter of a fiscal year and remains available during the following fiscal year. This form of funding typically finances ongoing education grant programs. See **budget authority** and **fiscal year;** compare with **advance appropriation** and **obligation delay.**

GDI: See **gross domestic income.**

GDP: See **gross domestic product.**

GDP gap: The difference between potential and actual GDP, expressed as a percentage of potential GDP. See **potential GDP.**

GDP price index: A summary measure of the prices of all of the goods and services that make up gross domestic product. The change in the GDP price index is used as a measure of inflation in the overall economy. See **gross domestic product** and **inflation.**

general fund: One type of federal fund whose receipt account is credited with federal revenues and offsetting receipts not earmarked by law for a specific purpose and whose expenditure account records amounts provided in appropriation acts or other laws for the general support of the federal government. See **expenditure account, federal funds,** and **receipt account;** compare with **trust funds.**

GNP: See **gross national product.**

grants: Transfer payments from the federal government to state and local governments or other recipients to help fund projects or activities that do not involve substantial federal participation. See **transfer payments.**

grants-in-aid: Grants from the federal government to state and local governments to help provide for programs of assistance or service to the public.

gross debt: See **debt.**

gross domestic income (GDI): The sum of all income earned in the domestic production of goods and services. In theory, GDI should equal GDP, but measurement difficulties leave a statistical discrepancy between the two. (BEA)

gross domestic product (GDP): The total market value of goods and services produced domestically during a given period. The components of GDP are consumption (both household and government), gross investment (both private and government), and net exports. (BEA) See **consumption, gross investment,** and **net exports.**

gross investment: A measure of additions to the capital stock that does not subtract depreciation of existing capital. See **capital** and **depreciation.**

gross national product (GNP): The total market value of goods and services produced during a given period by labor and capital supplied by residents of a country, regardless of where the labor and capital are located. GNP differs from GDP primarily by including the capital income that residents earn from investments abroad and excluding the capital income that nonresidents earn from domestic investment.

inflation: Growth in a general measure of prices, usually expressed as an annual rate of change. See **consumer price index** and **GDP price index.**

infrastructure: Capital goods that provide services to the public, usually with benefits to the community at large as well as to the direct user. Examples include schools, roads, bridges, dams, harbors, and public buildings. See **capital.**

inventories: Stocks of goods held by businesses for further processing or for sale. (BEA)

investment: *Physical investment* is the current product set aside during a given period to be used for future production—in other words, an addition to the stock of capital goods. As measured by the national income and product accounts, private domestic investment consists of investment in residential and nonresidential structures, producers' durable equipment, and the change in business inventories. *Financial investment* is the purchase of a financial security, such as a stock, bond, or mortgage. *Investment in human capital* is spending on education, training, health services, and other activities that increase the productivity of the workforce. Investment in human capital is not treated as investment by the national income and product accounts. See **capital, inventories,** and **national income and product accounts.**

JCWAA: See **Job Creation and Worker Assistance Act of 2002.**

JGTRRA: See **Jobs and Growth Tax Relief Reconciliation Act of 2003.**

Job Creation and Worker Assistance Act of 2002 (Public Law 107-147): Referred to in CBO reports as JCWAA, it was signed into law on March 9, 2002. The law reduced business taxes by providing immediate deduction of a portion of capital purchases, increasing and extending certain other deductions and exemptions, and expanding the ability of unprofitable corporations to receive refunds of past taxes paid. The act also provided certain tax benefits for areas of New York City damaged on September 11, 2001, and additional weeks of unemployment benefits to recipients who exhausted their eligibility for regular state benefits. The tax provisions contained varying expiration dates.

Jobs and Growth Tax Relief Reconciliation Act of 2003 (Public Law 108-27): Referred to in CBO reports as JGTRRA, it was signed into law on May 28, 2003. The law reduced taxes by advancing to 2003 the effective date of several tax reductions previously enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001. The act also increased the exemption amount for the individual alternative minimum tax (AMT), decreased the tax rates for income from dividends and capital gains, and expanded the portion of capital purchases that could be immediately deducted by businesses under the Job Creation and Worker Assistance Act of 2002. The tax provisions contained varying expiration dates. The legislation also provided an estimated $20 billion for fiscal relief to states. See **Economic Growth and Tax Relief Reconciliation Act of 2001** and **Job Creation and Worker Assistance Act of 2002.**

labor force: The number of people who have jobs or who are available for work and actively seeking jobs. The *labor force participation rate* is the labor force as a percentage of the noninstitutional population age 16 or older. (BLS)

labor productivity: See **productivity.**

liquidating account: A budgetary account associated with certain credit programs that includes all cash flows resulting from all direct loan obligations and loan guarantee commitments made under those programs before October 1, 1991. See **credit reform;** compare with **financing account.**

liquidity: The ease with which an asset can be sold for cash. An asset is highly liquid if it comes in standard units that are traded daily in large amounts by many buyers and sellers. Among the most liquid of assets are U.S. Treasury securities.

long-term interest rate: The interest rate earned by a note or bond that matures in 10 or more years.

mandatory spending: See **direct spending.**

marginal tax rate: The tax rate that applies to an additional dollar of income.

means of financing: Means by which a budget deficit is financed or a surplus is used. Means of financing are not included in the budget totals. The primary means of financing is borrowing from the public. In general, the cumulative amount borrowed from the public (debt held by the public) will increase if there is a deficit and decrease if there is a surplus, although other factors can affect the amount that the government must borrow. Those factors, known as other means of financing, include reductions (or increases) in the government's cash balances, seigniorage, changes in outstanding checks, changes in accrued interest costs included in the budget but not yet paid, and cash flows reflected in credit financing accounts. See **debt, deficit, financing account, seigniorage,** and **surplus.**

monetary policy: The strategy of influencing movements of the money supply and interest rates to affect output and inflation. An "easy" monetary policy suggests faster growth of the money supply and initially lower short-term interest rates in an attempt to increase aggregate demand, but it may lead to higher inflation. A "tight" monetary policy suggests slower growth of the money supply and higher interest rates in the near term in an attempt to reduce inflationary pressure by lowering aggregate demand. The Federal Reserve System conducts monetary policy in the United States. See **aggregate demand, Federal Reserve System, inflation, money supply,** and **short-term interest rate.**

money supply: Private assets that can readily be used to make transactions or are easily convertible into assets that can. The money supply includes currency and demand deposits and may also include broader categories of assets, such as other types of deposits and securities.

NAIRU (nonaccelerating inflation rate of unemployment): The unemployment rate hypothetically consistent with a constant inflation rate. An unemployment rate higher than the NAIRU indicates downward pressure on inflation, whereas an unemployment rate lower than the NAIRU indicates upward pressure on inflation. Estimates of the NAIRU are based on the historical relationship between inflation and the unemployment rate. (CBO's procedures for estimating the NAIRU are described in Appendix B of *The Economic and Budget Outlook: An Update,* August 1994.) See **inflation** and **unemployment rate.**

national income: Total income earned by U.S. residents from all sources, including employee compensation (wages, salaries, benefits, and employers' contributions to social insurance programs), corporate profits, net interest, rental income, and proprietors' income.

national income and product accounts (NIPAs): Official U.S. accounts that track the level and composition of gross domestic product, the prices of its components, and the way in which the costs of production are distributed as income. (BEA) See **gross domestic product.**

national saving: Total saving by all sectors of the economy: personal saving, business saving (corporate after-tax profits not paid as dividends), and government saving (the budget surplus). National saving represents all income not consumed, publicly or privately, during a given period. (BEA) See **national income, net national saving,** and **personal saving.**

natural rate of unemployment: The rate of unemployment arising from all sources except fluctuations in aggregate demand. Those sources include *frictional unemployment,* which is associated with normal turnover of jobs; *structural unemployment,* which includes unemployment caused by mismatches between the skills of available workers and the skills necessary to fill vacant positions; and unemployment caused by institutional factors such as legal minimum wages, the presence of unions, and social conventions. See **aggregate demand** and **unemployment rate.**

net exports: Exports of goods and services produced in a country minus the country's imports of goods and services produced elsewhere (sometimes referred to as a trade surplus when net exports are positive or a trade deficit when net exports are negative).

net federal government saving: A term used in the national income and product accounts (NIPAs) to identify the difference between federal current receipts and federal current expenditures (including consumption of fixed capital). When receipts exceed expenditures, net federal government saving is positive (formerly identified in the NIPAs as a federal government surplus); when expenditures exceed receipts, net federal government saving is negative (formerly identified in the NIPAs as a federal government deficit). See **national income and product accounts.**

net interest: In the federal budget, net interest comprises the government's interest payments on debt held by the public (as recorded in budget function 900) offset by interest income that the government receives on loans and cash balances and by earnings of the National Railroad Retirement Investment Trust.

net national saving: National saving minus depreciation of physical capital. See **capital, depreciation,** and **national saving.**

NIPAs: See **national income and product accounts.**

nominal: A measure based on current-dollar value. The nominal level of income or spending is measured in current dollars. The *nominal interest rate* on debt selling at par is the ratio of the current-dollar interest paid in any year to the current-dollar value of the debt when it was issued. The nominal interest rate on debt initially issued or now selling at a discount includes as a payment the estimated yearly equivalent of the difference between the redemption price and the discounted price. The *nominal exchange rate* is the rate at which a unit of one currency trades for a unit of another currency. See **current dollar;** compare with **real.**

obligation: A legally binding commitment by the federal government that will result in outlays immediately or in the future.

obligation delay: Legislation that precludes the obligation of an amount of budget authority provided in an appropriation act or in some other law until some time after the first day on which that budget authority would normally be available. For example, language in an appropriation act for fiscal year 2005 that precludes obligation of an amount until March 1 is an obligation delay; without that language, the amount would have been available for obligation on October 1, 2004 (the first day of fiscal year 2005). See **appropriation act** and **fiscal year;** compare with **advance appropriation** and **forward funding.**

obligation limitation: Legislation that reduces existing authority to incur obligations.

off-budget: Spending or revenues excluded from the budget totals by law. The revenues and outlays of the two Social Security trust funds (the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund) and the transactions of the Postal Service are off-budget. As a result, they are excluded from the totals and other amounts in the budget resolution and from any calculations necessary under the Deficit Control Act. See **Balanced Budget and Emergency Deficit Control Act of 1985, budget resolution, outlays, revenues,** and **trust funds.**

offsetting collections: Funds collected by the government that are required by law to be credited directly to an expenditure account. Offsetting collections are accounted for as negative budget authority and outlays; they offset budget authority and outlays (either direct or discretionary spending) at the program or account level. Offsetting collections generally result from businesslike or market-oriented activities with the public or from intragovernmental transactions. Collections that result from the government's exercise of its sovereign or governmental powers are ordinarily classified as revenues, but will be classified as offsetting collections when the law requires that treatment. See **budget authority, direct spending, discretionary spending, expenditure account,** and **outlays;** compare with **offsetting receipts** and **revenues.**

offsetting receipts: Funds collected by the government that are credited to a receipt account. Offsetting receipts are accounted for as negative budget authority and outlays; they offset gross budget authority and outlays for direct spending programs in calculations of total direct spending. Offsetting receipts generally result from businesslike or market-oriented activities with the public or from intragovernmental transactions. Collections that result from the government's exercise of its sovereign or governmental powers are ordinarily classified as revenues, but will be classified as offsetting receipts when the law requires that treatment. See **budget authority, direct spending, outlays,** and **receipt account;** compare with **offsetting collections** and **revenues.**

other means of financing: See **means of financing.**

outlays: Spending made to pay a federal obligation. Outlays may pay for obligations incurred in previous fiscal years or in the current year; therefore, they flow in part from unexpended balances of prior-year budget authority and in part from budget authority provided for the current year. For most categories of spending, outlays are recorded when payments are made or when cash is disbursed from the Treasury. However, outlays for interest on debt held by the public are recorded when the interest is earned, and outlays for direct loans and loan guarantees (since credit reform) reflect estimated subsidy costs instead of cash transactions. See **budget authority, credit subsidy, debt,** and **fiscal year.**

out-year: See **fiscal year.**

pay-as-you-go (PAYGO): A procedure established in the Budget Enforcement Act of 1990 that was intended to ensure that all legislation affecting direct spending or revenues was budget neutral in each fiscal year. Under the procedure, the Office of Management and Budget and CBO estimated the five-year budgetary impact of all such legislation enacted into law. If the total of those estimates in the budget year increased the deficit or reduced the surplus for that year, a PAYGO sequestration—a cancellation of budgetary resources available for direct spending programs—would be triggered. Since September 30, 2002, the Office of Management and Budget and CBO are no longer required to provide five-year estimates of laws affecting direct spending and revenues. Although sequestration under the pay-as-you-go procedures would have continued through 2006 on the basis of laws enacted before September 30, 2002, Public Law 107-312 eliminated that possibility by reducing to zero all pay-as-you-go balances. See **Balanced Budget and Emergency Deficit Control Act of 1985, direct spending, fiscal year, revenues,** and **sequestration.**

peak: See **business cycle.**

personal income: See **disposable personal income.**

personal saving: Saving by households. Personal saving equals disposable personal income minus spending for consumption and interest payments. The personal saving rate is personal saving as a percentage of disposable personal income. (BEA) See **disposable personal income.**

point of order: Procedure by which a member of a legislature (or similar body) questions an action being taken, or that is proposed to be taken, as contrary to that body's rules, practices, or precedents.

potential GDP: The level of real gross domestic product that corresponds to a high level of resource (labor and capital) use. (CBO's procedure for estimating potential GDP is described in *CBO's Method for Estimating Potential Output: An Update,* August 2001.) See **gross domestic product, inflation, potential output,** and **real.**

potential labor force: The labor force adjusted for movements in the business cycle. See **business cycle** and **labor force.**

potential output: The level of production that corresponds to a high level of resource (labor and capital) use. Potential output for the national economy is also referred to as potential GDP. (CBO's procedure for estimating potential output is described in *CBO's Method for Estimating Potential Output: An Update,* August 2001.) See **inflation** and **potential GDP.**

present value: A single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) today. The calculation of present value depends on the rate of interest. For example, if $100 is invested on January 1 at an annual interest rate of 5 percent, it will grow to $105 by January 1 of the next year. Hence, at an annual 5 percent interest rate, the present value of $105 payable a year from today is $100.

primary surplus: See **surplus.**

private saving: Saving by households and businesses. Private saving is equal to personal saving plus after-tax corporate profits minus dividends paid. (BEA) See **personal saving.**

productivity: Average real output per unit of input. *Labor productivity* is average real output per hour of labor. The growth of labor productivity is defined as the growth of real output that is not explained by the growth of labor input alone. *Total factor productivity* is average real output per unit of combined labor and capital inputs. The growth of total factor productivity is defined as the growth of real output that is not explained by the growth of labor and capital. Labor productivity and total factor productivity differ in that increases in capital per worker raise labor productivity but not total factor productivity. (BLS) See **capital input.**

program account: Any budgetary account associated with a credit program that receives an appropriation of the subsidy cost of that program's loan obligations or commitments as well as, in most cases, the program's administrative expenses. From the program account, the subsidy cost is disbursed to the applicable financing account. See **credit subsidy** and **financing account.**

real: Adjusted to remove the effects of inflation. *Real output* represents the quantity, rather than the dollar value, of goods and services produced. *Real income* represents the power to purchase real output. *Real data* at the finest level of disaggregation are constructed by dividing the corresponding nominal data, such as spending or wage rates, by a price index. Real aggregates, such as real GDP, are constructed by a procedure that allows the real growth of the aggregate to reflect the real growth of its components, appropriately weighted by the importance of the components. A *real interest rate* is a nominal interest rate adjusted for expected inflation; it is often approximated by subtracting an estimate of the expected inflation rate from the nominal interest rate. Compare with **current** and **nominal dollar.**

real trade-weighted value of the dollar: See **trade-weighted value of the dollar.**

receipt account: An account established within federal funds and trust funds to record offsetting receipts or revenues credited to the fund. See **federal funds, offsetting receipts, revenues,** and **trust funds.**

recession: A phase of the business cycle extending from a peak to the next trough and characterized by a substantial decline in overall business activity—output, income, employment, and trade—of at least several months' duration. As a rule of thumb, though not an official measure, recessions are often identified by a decline in real gross domestic product for at least two consecutive quarters. (NBER) See **business cycle, gross domestic product,** and **real;** compare with **expansion.**

reconciliation: A special Congressional procedure often used to implement the revenue and spending targets established in the budget resolution. The budget resolution may contain *reconciliation instructions,* which direct Congressional committees to make changes in existing revenues or direct spending programs under their jurisdiction to achieve a specified budgetary result. The legislation to implement those instructions is usually combined into one comprehensive *reconciliation bill,* which is then considered under special rules. Reconciliation affects revenues, direct spending, and offsetting receipts but usually not discretionary spending. See **budget resolution, direct spending, discretionary spending, offsetting receipts,** and **revenues.**

recovery: A phase of the business cycle that lasts from a trough until overall economic activity returns to the level it reached at the previous peak. (NBER) See **business cycle.**

revenues: Funds collected from the public through the government's exercise of its sovereign or governmental powers. Federal revenues consist of individual and corporate income taxes, excise taxes, and estate and gift taxes; contributions to social insurance programs (such as Social Security and Medicare); customs duties; fees and fines; and miscellaneous receipts, such as earnings of the Federal Reserve System, gifts, and contributions. Federal revenues are also known as federal governmental receipts. Compare with **offsetting collections** and **offsetting receipts.**

risk premium: The additional return that investors require to hold assets whose returns are more variable than those of riskless assets. The risk can arise from many sources, such as the possibility of default (in the case of corporate or municipal debt), the volatility of earnings (in the case of corporate equities), or changes in interest rates.

S corporation: A domestically owned corporation with no more than 75 owners who have elected to pay taxes under Subchapter S of the Internal Revenue Code. An S corporation is taxed like a partnership: it is exempt from the corporate income tax, but its owners pay income taxes on all of the firm's income, even if some of the earnings are retained by the firm.

saving rate: See **national saving** and **personal saving.**

savings bond: A nontransferable, registered security issued by the Treasury at a discount and in denominations from $50 to $10,000. The interest earned on savings bonds is exempt from state and local taxation; it is also exempt from federal taxation until the bonds are redeemed.

seigniorage: The gain to the government from the difference between the face value of minted coins put into circulation and the cost of producing them (including the cost of the metal used in the coins). Seigniorage is considered a means of financing and is not included in the budget totals. See **means of financing.**

sequestration: The cancellation of budgetary resources available for a fiscal year in order to enforce the discretionary spending limits or pay-as-you-go procedures in that year. The process was first established in the Balanced Budget and Emergency Deficit Control Act of 1985. A discretionary spending sequestration would be triggered if the Office of Management and Budget determined that budget authority or outlays provided in appropriation acts exceeded the applicable discretionary spending limits. Spending in excess of the limits would cause the cancellation of budgetary resources within the applicable category of discretionary programs. A pay-as-you-go sequestration would be triggered if OMB determined that recently enacted legislation affecting direct spending and revenues increased the deficit or reduced the surplus. An increase in the deficit or reduction of the surplus would cause the cancellation of budgetary resources available for direct spending programs not otherwise exempt by law. On September 30, 2002, the discretionary spending caps and the sequestration procedure to enforce those caps expired, and OMB (and CBO) were no longer required to record the five-year budgetary effects of legislation affecting direct spending or revenues. Although sequestration under the pay-as-you-go procedure would have continued through 2006 on the basis of laws enacted before September 30, 2002, Public Law 107-312 eliminated that possibility by reducing to zero all pay-as-you-go balances. See **direct spending, discretionary spending limits,** and **pay-as-you-go.**

short-term interest rate: The interest rate earned by a debt instrument (such as a Treasury bill) that will mature within one year.

standardized-budget surplus or deficit: The level of the federal budget surplus or deficit that would occur under current law if the economy operated at potential GDP. The standardized-budget surplus or deficit provides a measure of underlying fiscal policy by removing the influence of cyclical factors. (CBO) See **deficit, fiscal policy, potential GDP,** and **surplus;** compare with **cyclical surplus or deficit.**

structural surplus or deficit: Same as **standardized-budget surplus or deficit.**

Subchapter S corporation: See **S corporation.**

subsidy cost: See **credit subsidy.**

surplus: The amount by which the federal government's total revenues exceed its total outlays in a given period, typically a fiscal year. The *primary surplus* is that total surplus excluding net interest. See **outlays** and **revenues;** compare with **deficit.**

10-year Treasury note: An interest-bearing note issued by the U.S. Treasury that is to be redeemed in 10 years.

three-month Treasury bill: An interest-bearing security issued by the U.S. Treasury that is to be redeemed in 91 days.

total factor productivity: See **productivity.**

trade deficit: See **net exports.**

trade-weighted value of the dollar: The value of the U.S. dollar relative to the currencies of U.S. trading partners, with the weight of each country's currency equal to that country's share of U.S. trade. The *real trade-weighted value of the dollar* is the trade-weighted value of the dollar that takes account of the difference between U.S. price inflation and price inflation among U.S. trading partners. An increase in the real trade-weighted value of the dollar means that the price of U.S.-produced goods and services has increased relative to the price of foreign-produced goods and services.

transfer payments: Payments made to an individual or organization for which no current or future goods or services are required in return. Federal transfer payments include Social Security and unemployment benefits. (BEA)

trough: See **business cycle.**

trust funds: Government funds that are designated by law as trust funds (regardless of any other meaning of that term). Trust funds display the revenues, offsetting receipts or offsetting collections, and outlays that result from implementation of the law that designated the fund as a trust fund. The federal government has more than 200 trust funds. The largest and best known finance major benefit programs (including Social Security and Medicare) and infrastructure spending (the Highway and the Airport and Airway Trust Funds). See **offsetting collections, offsetting receipts, outlays,** and **revenues;** compare with **federal funds** and **general fund.**

underlying rate of inflation: The rate of inflation of a modified consumer price index for all urban consumers that excludes from its market basket the components with the most volatile prices: food and energy. See **consumer price index** and **inflation.**

unemployment gap: The difference between the non-accelerating inflation rate of unemployment (NAIRU) and the unemployment rate. See **NAIRU.**

unemployment rate: The number of jobless people who are available for work and are actively seeking jobs, expressed as a percentage of the labor force. (BLS) See **discouraged workers** and **labor force.**

unilateral transfers: Payments from one country to another that are not made in exchange for goods or services—for instance, gifts or pension payments to foreign residents.

unobligated balances: The portion of budget authority that has not yet been obligated. When budget authority is provided for one fiscal year, any unobligated balances at the end of that year expire and are no longer available for obligation. When budget authority is provided for a specific number of years, any unobligated balances are carried forward and are available for obligation during the years specified. When budget authority is provided for an unspecified number of years, the unobligated balances are carried forward indefinitely, until either they are rescinded, the purpose for which they were provided is accomplished, or no disbursements have been made for two consecutive years. See **budget authority;** compare with

advance appropriation, forward funding, and **obligation delay.**

user fee: A fee charged by the federal government to recipients of its goods or services. User fees generally apply to activities that provide special benefits to identifiable recipients, and the amount of the fee is usually related to the cost of the good or service provided. In the federal budget, user fees can be classified as offsetting collections, offsetting receipts, or revenues. See **offsetting collections, offsetting receipts,** and **revenues.**

yield: The average annual rate of return on a security, including interest payments and repayment of principal, if it is held to maturity.

yield curve: The relationship formed by plotting the yields of otherwise comparable fixed-income securities against their terms to maturity. Typically, yields increase as maturities lengthen. The rate of that increase determines the "steepness" or "flatness" of the yield curve. Ordinarily, a steepening (or flattening) of the yield curve is taken to suggest that short-term interest rates are expected to rise (or fall). See **short-term interest rate.**